

**Titus Energy Corp.**

**Financial Statements  
Year ended May 31, 2014**

**(Expressed in Canadian Dollars)**



**DALE MATHESON CARR-HILTON LABONTE LLP**  
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Titus Energy Corp.:

We have audited the accompanying financial statements of Titus Energy Corp., which comprise the statements of financial position as at May 31, 2014 and 2013, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Titus Energy Corp. as at May 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS

Vancouver, Canada  
September 29, 2014

An independent firm associated with  
Moore Stephens International Limited  
**MOORE STEPHENS**

**TITUS ENERGY CORP.**  
Statements of financial position  
(Expressed in Canadian dollars)

	Notes	May 31, 2014	May 31, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 46,551	\$ 1,144,673
Prepays and deposits	6	1,500	101,500
Receivables		1,999	19,790
<b>Total Current Assets</b>		<b>50,050</b>	<b>1,265,963</b>
<b>Non-Current Assets</b>			
Exploration and evaluation assets	6,7	1,083,918	54,518
<b>TOTAL ASSETS</b>		<b>\$ 1,133,968</b>	<b>\$ 1,320,481</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accrued liabilities		\$ 1,000	\$ 10,000
<b>TOTAL LIABILITIES</b>		<b>1,000</b>	<b>10,000</b>
<b>EQUITY</b>			
Share capital	5	1,687,386	1,687,386
Share-based payment reserve	5	35,329	35,329
Deficit		(589,747)	(412,234)
<b>TOTAL EQUITY</b>		<b>1,132,968</b>	<b>1,310,481</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 1,133,968</b>	<b>\$ 1,320,481</b>

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue, September 29, 2014.

Approval on behalf of the Board of Directors:

“David Gingell”

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Director

“Lloyd Bates”

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Director

**TITUS ENERGY CORP.**  
Statements of comprehensive loss  
(Expressed in Canadian dollars)

	Notes	Year ended May 31, 2014	Year ended May 31, 2013
<b>Expenses</b>			
Consulting fees	7	\$ 62,000	\$ 5,200
Filing fees		15,394	21,138
Management fees	7	15,000	60,000
Office and administration	7	72,212	67,662
Professional fees		17,741	93,960
Property investigation costs		-	16,267
		<b>182,347</b>	<b>264,227</b>
<b>Other Item</b>			
Interest income		4,834	17,410
<b>Net and comprehensive loss</b>		<b>\$ (177,513)</b>	<b>(246,817)</b>
<b>Loss per share – basic and diluted</b>		<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>		<b>12,725,000</b>	<b>10,205,000</b>

**TITUS ENERGY CORP.**  
Statements of changes in equity  
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	Deficit	Total
	Number of shares	Amount			
Balance at May 31, 2012	12,725,000	\$ 1,687,386	\$ 35,329	\$ (165,417)	\$ 1,557,298
Net loss	-	-	-	(246,817)	(246,817)
<b>Balance at May 31, 2013</b>	<b>12,725,000</b>	<b>\$ 1,687,386</b>	<b>\$ 35,329</b>	<b>\$ (412,234)</b>	<b>\$ 1,310,481</b>
<b>Balance at May 31, 2013</b>	<b>12,725,000</b>	<b>\$ 1,687,386</b>	<b>\$ 35,329</b>	<b>\$ (412,234)</b>	<b>\$ 1,310,481</b>
Net loss	-	-	-	(177,513)	(177,513)
<b>Balance at May 31, 2014</b>	<b>12,725,000</b>	<b>\$ 1,687,386</b>	<b>\$ 35,329</b>	<b>\$ (589,747)</b>	<b>\$ 1,132,968</b>

**TITUS ENERGY CORP.**  
Statements of cash flows  
(Expressed in Canadian dollars)

	Year ended May 31, 2014	Year ended May 31, 2013
<b>Operating activities</b>		
Net loss	\$ (177,513)	\$ (246,817)
Changes in non-cash working capital items:		
Receivables	17,791	(19,790)
Prepays and deposits	100,000	(101,500)
Accounts payables and accrued liabilities	(9,000)	2,000
<b>Net cash flows used in operating activities</b>	<b>(68,722)</b>	<b>(366,107)</b>
<b>Investing activities</b>		
Exploration and evaluation assets	(1,029,400)	(54,518)
<b>Net cash flows used in investing activities</b>	<b>(1,029,400)</b>	<b>(54,518)</b>
Change in cash and cash equivalents	(1,098,122)	(420,625)
Cash and cash equivalents, beginning	1,144,673	1,565,298
<b>Cash and cash equivalents, ending</b>	<b>\$ 46,551</b>	<b>\$ 1,144,673</b>
<b>Cash and cash equivalents consist of:</b>		
Cash	\$ 46,551	\$ 144,673
Guaranteed investment certificate	-	1,000,000
	<b>\$ 46,551</b>	<b>\$1,144,673</b>

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Titus Energy Corp. (the "Company") was incorporated as "Titus Capital Corp." under the British Columbia Business Corporations Act on February 17, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange") until it completed its Qualifying Transaction (the "QT") on December 20, 2012.

The Company's head office, principal address and registered and records office is 1435 Cornwall Street, Regina, Saskatchewan, S4R 5B3.

Effective December 21, 2012, the Exchange accepted for filing the Company's QT and related transactions, all as principally described in its filing statement dated December 6, 2012 (the "Filing Statement"). As a result, the Company is no longer considered as a Capital Pool Company and has changed its name to "Titus Energy Corp."

Effective December 21, 2012, the common shares of "Titus Energy Corp." commenced trading on the Exchange. The Company's trading symbol is TIS. The Company is classified as a Tier 2 Junior Oil and Gas Exploration company and is involved in the oil and gas resource exploration and development sector.

The financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. During the year ended May 31, 2014, the Company incurred a net loss of \$177,513 and, as of this date, the Company has not generated revenue from operations and has an accumulated deficit of \$589,747. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

The financial statements were approved and authorized for issue on, September 29, 2014 by the directors of the Company.

### ***Basis of preparation***

These financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements have been prepared on a historical cost basis, except for financial instruments. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. The financial statements are presented in Canadian dollars unless otherwise noted, which is the Company's functional currency.

### ***Significant estimates and assumptions***

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

### ***Significant estimates and assumptions (continued)***

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful life of equipment, stock-based awards and payments, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets and provisions for restoration and environmental obligations.

### ***Significant judgments***

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the determination of whether an acquisition constitutes a business combination or an acquisition of assets; and
- the classification/allocation of expenditures as exploration and evaluation assets or operating expenses.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash and highly liquid Canadian dollar denominated guaranteed investment certificate that are readily convertible to contracted amounts of cash.

### ***Share-based payments***

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### ***Exploration and evaluation expenditures***

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of comprehensive loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of oil and gas resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.



## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

### ***Restoration and environmental obligations***

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other oil and gas assets.

Changes are recorded directly to oil and gas assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

As at May 31, 2014, management has determined that the estimated present value of decommissioning liabilities is nominal.

### ***Impairment of assets***

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

### ***Loss per share***

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

### ***Financial instruments***

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's trade payables are classified as other financial liabilities.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

### ***Income taxes***

#### **Current income tax:**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **Deferred income tax:**

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

## **3. ADOPTION OF NEW AND REVISED STANDARDS**

The following standards, amendments, and interpretations have been adopted by the Company as of June 1, 2013. There was no impact on the financial statements as a result of the adoption of these standards, amendments, and interpretations:

- a) IFRS 10 Consolidated Financial Statements (New; to replace consolidation requirements in IAS 27) as amended in 2009) and SIC-12);
- b) IFRS 11 Joint Arrangements (New; to replace IAS 31 and SIC-13);
- c) IFRS 12 Disclosure of Interests in Other Entities (New; to replace disclosure requirements in IAS 27 (as amended in 2008), IAS 28 (as revised in 2003) and IAS 31);
- d) IFRS 13 Fair Value Measurement (New; to replace fair value measurement guidance in other IFRSs); and
- e) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New).

#### **4. STANDARDS ISSUED BUT NOT YET APPLIED**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2014 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a material effect on the Company's future results and financial position:

- a) IFRS 9 Financial Instruments (New; to replace IAS 39 and IFRIC 9);
- b) IAS 32 Financial Instrument Presentation (Amendments to address inconsistencies when applying offsetting requirements); and
- c) IFRIC 21 Levies (Interpretation of IAS 37).

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's financial statements.

#### **5. SHARE CAPITAL**

##### ***Authorized share capital***

Unlimited number of voting common shares without nominal or par value.

##### ***Issued common shares***

During the years ended May 31, 2014 and 2013 the Company did not issue any common shares.

##### ***Shares held in escrow***

As at May 31, 2014, pursuant to the escrow agreement dated September 21, 2010, 1,680,000 (2013 – 2,520,000) common shares issued are held in escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the date of acceptance by the Exchange of the Company's QT (the "Initial Release") and an additional 15% will be released every six months following the Initial Release over a period of thirty six months. As at May 31, 2014, 840,000 (2013 – 280,000) common shares had been released from escrow.

##### ***Stock options***

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

During the years ended May 31, 2014 and 2013, the Company did not grant any stock options.

As at May 31, 2014, there are 200,000 (2013 – 200,000) options issued and outstanding with the weighted average life and weighted average exercise price of 1 year (2013 – 2 years) and \$0.15 (2013 – \$0.15), respectively. As at May 31, 2014 and 2013, all of these options were exercisable.

## 5. SHARE CAPITAL (continued)

### *Share-based payment reserve*

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

## 6. EXPLORATION AND EVALUATION ASSETS

### *Prevail Property*

On October 15, 2012, the Company entered in an agreement with an arm's length vendor, by which the Company can earn a 30% interest in the Prevail Property in the Province of Saskatchewan. To earn a 30% interest, the Company must complete re-activation "work-over" of three currently shut-in wells, on or before June 1, 2013 and drill, complete and equip one infill well on or before June 1, 2013. The work program commitment is estimated at \$750,000. During the year ended May 31, 2013, the Company and the arm's length vendor agreed to extend the work program from June 1, 2013 to June 1, 2014. The Company met its work program commitment during the year ended May 31, 2014 and has earned a 30% interest in the Prevail Property.

During the year ended May 31, 2014, the Company spent \$1,029,400 (2013 - \$54,518) in exploration and evaluation costs. As at May 31, 2014, the Company recorded in prepaids and deposits \$1,500 (2013 - \$1,500) as geological consulting fees paid in advance to a former director of the Company.

	Prevail Property, Saskatchewan, Canada
<b>Balance, May 31, 2013</b>	<b>\$ 54,518</b>
Geophysical survey	400,000
Equipment rental	156,000
Drilling	455,400
Geological consulting (Note 7)	18,000
<b>Balance, May 31, 2014</b>	<b>\$ 1,083,918</b>

## 7. RELATED PARTY TRANSACTIONS

Key management includes directors and senior officers of the Company. The compensation paid to key management is as follows:

	May 31, 2014	May 31, 2013
Management fees paid to a former director of the Company	\$ 15,000	\$ 60,000
Consulting fees paid to a former director of the Company	61,000	5,200
Geological consulting fees paid to the former President of the Company	-	20,000
Geological consulting fees paid to a former director of the Company (Note 6)	18,000	24,500
	<b>\$ 94,000</b>	<b>\$ 109,700</b>

The Company also incurred office and administration fees of \$60,500 (2013 - \$43,000) to a company controlled by a former common director.

## **8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### ***Fair value***

As at May 31, 2014 and 2013, the Company's financial instruments consisted of cash and cash equivalents. The fair values of cash and cash equivalents approximates its carrying value because of its current nature.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

Cash and cash equivalents are classified as a level 1 input. The Company does not have any derivative financial assets and liabilities.

### ***Financial instrument risk exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with one major bank in Canada so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk on its receivables is minimal since it is for taxes recoverable from the Canadian government.

### **Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Company's functional currency. The Company only operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash and cash equivalents balances at variable rates. The risk is minimal.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company attempts to ensure there is sufficient access to funds to meet on-going business requirements, taking into account its current cash position and potential funding sources.

## 9. MANAGEMENT OF CAPITAL

The Company manages the capital structure and makes adjustments to it depending on changes in economic conditions, business opportunity and risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash and cash equivalents.

There were no changes in the Company's approach to capital management during the year.

The Company is subject to certain requirements in relation to its use of funds raised through the issuance of flow-through shares. These funds have to be incurred for eligible exploration expenditures in accordance with Canadian federal and certain provincial income tax acts. During the year, the Company complied with the requirements.

## 10. INCOME TAX

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	2014	2013
Loss for the year	\$ (177,513)	\$ (246,817)
Statutory tax rate	25.42%	25.00%
Expected income tax recovery	(45,118)	(61,704)
Permanent differences	14,001	483
Change in valuation allowance	30,606	46,013
Impact of tax rate change and other	511	15,209
<b>Deferred income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	May 31, 2014	May 31, 2013
Non-capital loss carry-forwards	\$ 668,049	\$ 455,460
Share issuance costs	35,647	71,293
	<b>\$ 703,696</b>	<b>\$ 526,753</b>

**10. INCOME TAX (continued)**

The tax pools relating to these deductible temporary differences expire as follows:

	Exploration and evaluation assets	Loss carry- forwards	Share issuance costs
2015	\$ -	\$ -	\$ 35,646
2030	-	36,167	-
2031	-	43,806	-
2032	-	94,957	-
2033	-	212,933	-
2034	-	212,589	-
No expiry	1,029,400	-	-
	<b>\$ 1,029,400</b>	<b>\$ 668,049</b>	<b>\$ 35,646</b>

Management has determined that the realization of the potential income tax benefits related to the non-capital losses and other tax pools is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential deferred income tax asset. As at May 31, 2014, the Company has non-capital losses of approximately \$668,049 that may be applied against deferred income for Canadian income tax purposes which commence expiring in 2030.